Personal Taxpayer Series
CGT1

Inland Revenue

Capital gains tax

An introduction

We produce a wide range of leaflets, booklets and Helpsheets each designed to explain different aspects of your tax and National Insurance in plain English and to assist with the completion of tax returns. Most of them are free and most are also available in Welsh.

Some other leaflets you might find useful are

IR20	Residents and non-residents. Liability to tax in the United Kingdom
IR65	Giving to charity by individuals
IR137	The Enterprise Investment Scheme
IR178	Giving shares and securities to charity
SA/BK6	Self Assessment. Penalties for late tax returns
SA/BK7	Self Assessment. Surcharges for late payment of tax
SA/BK8	Self Assessment. Your guide

The following Helpsheets give more detailed information about particular aspects of Capital Gains Tax (CGT)

IR278	Temporary non-residents and Capital Gains Tax
IR279	Taper relief
IR280	Rebasing – assets held at 31 March 1982
IR281	Husband and wife, divorce and separation
IR282	Death, personal representatives and legatees
IR283	Private residence relief
IR284	Shares and Capital Gains Tax
IR285	Share reorganisations, company take-overs and Capital Gains Tax
IR286	Negligible value claims and income tax losses for shares you have subscribed for in unlisted trading companies
IR287	Employee share schemes and Capital Gains Tax
IR288	Partnerships and Capital Gains Tax
IR289	Retirement relief and Capital Gains Tax
IR290	Business asset roll-over relief
IR292	Land and leases, the valuation of land and Capital Gains Tax
IR293	Chattels and Capital Gains Tax
IR294	Trusts and Capital Gains Tax
IR295	Relief for gifts and similar transactions
IR296	Debts and Capital Gains Tax
IR297	Enterprise Investment Scheme and Capital Gains Tax
IR298	Venture Capital Trusts and Capital Gains Tax
IR299	Non-resident trusts and Capital Gains Tax
IR301	Capital gains on benefits from non-resident, dual resident and immigrating trusts.

The notes on filling in the CGT pages of the Tax Return also contain some useful guidance and examples. These are available on our website and from the Orderline.

The book 'Capital Gains Tax Reform: The 1998 Finance Act – a guide for Inland Revenue Officers and Tax Practitioners' is available on our website. It is also available by post (price £5) from the Inland Revenue Library, New Wing, Somerset House, Strand, London WC2R 1LB (020-7438 6648) or in person from Inland Revenue Visitors' Information Centre, Ground Floor, South West Wing, Bush House, Strand, London WC2B 4RD. It gives more background to the 1998 reforms, including the introduction of taper relief, the phasing out of retirement relief and the new share identification rules. Note that the book has not been updated to reflect changes since 1998.

We have a full range of services for people with disabilities, including leaflets in Braille, audio and large print. For details, please ask your local Inland Revenue office or Enquiry Centre.

Our leaflet IR120 'You and the Inland Revenue' tells you more about the standard of service you can expect from us. It also tells you the steps you can take if you want to comments on the service you receive, or complain about the way your tax affairs have been handled.

Our IR List Catalogue of leaflets and booklets gives further information about our publications, most of which you can get from any Inland Revenue Enquiry Centre, Tax Office or National Insurance Contributions Office. Addresses are in your local telephone book under 'Inland Revenue'. Most offices are open to the public from 8.30am to 4.30pm, Monday to Friday and some are also open outside these hours. Social Security offices, your library or Citizens' Advice Bureau may also have copies of our leaflets.

You can get most of our leaflets by

- calling our Orderline on **0845 9000 404** between 8.00 a.m. and 10.00 p.m., seven days a week (except Christmas Day)

- fax on **0845 9000 604**

- e-mail on **saorderline.ir@gtnet.gov.uk**

- writing to
  PO Box 37
  St Austell
  Cornwall PL25 5YN

When our offices are closed, in the evening or at weekends, you can get general advice on Self Assessment by phoning our Helpline on **0845 9000 604**.

Helpline and Orderline calls are charged at the local rate.

Our website – **www.inlandrevenue.gov.uk** – contains leaflets, the Helpsheets for self-assessment, technical guidance, the Capital Gains Manual, press releases and other material.

If you have comments on the contents of CGT1 or suggestions for how it could be made more useful, please let us know. Write to Capital Taxes Policy Group, New Wing, Somerset House, Strand, London WC2R 1LB.

ABOUT THIS LEAFLET

This leaflet tells you the basic rules of Capital Gains Tax (CGT) for individuals.

You will find it useful if you have disposed of an asset and need to know whether to report a chargeable gain or an allowable loss to your Tax Office. It is also useful if you are contemplating a transaction and are wondering what the CGT implications might be.

It covers only common situations and does not contain all the guidance you will need to work out your chargeable gain or allowable loss in every case, or how much CGT you will have to pay. We publish a number of Help Sheets containing more detailed guidance to help you on particular topics The inside front cover of this leaflet tells you what the Help Sheets cover and how to get copies.

The leaflet is divided into nine sections and four appendices.

Section 1: **An introduction to CGT**

Section 2: **Assets and disposals**
Which assets give rise to a chargeable gain
Which disposals give rise to a chargeable gain
Which assets and disposals do not give rise to a chargeable gain

Section 3: **Working out the chargeable gain**
What costs you may deduct

Section 4: **Reliefs (other than taper relief)**
Some reliefs eliminate, reduce or defer chargeable gains
You may not have a chargeable gain when you dispose of your home

Section 5: **Allowable losses**
If you made a loss on disposal, you may reduce your chargeable gains

Section 6: **Taper relief**
Reduces chargeable gains the longer you have held an asset

Section 7: **Working out the tapered chargeable gains**
How to bring together the calculations of gains, losses and taper relief

Section 8: **Working out the amount chargeable to CGT**
Deducting the annual exempt amount

Section 9: **Working out the tax due**
How to work out the amount of CGT you will actually have to pay

Appendix 1: **Post transaction valuation checks for CGT**
You can ask us if we agree a valuation when you have disposed of an asset

Appendix 2: **Indexation Allowance**
What allowance you may have for inflation (up to April 1998)

Appendix 3: **Taper relief on disposals of business assets on or before 5 April 2000**

Appendix 4: **Apportionment**
Dividing a gain into business and non-business parts for taper relief

SECTION 1: AN INTRODUCTION TO CGT

When do I have to pay CGT?

You may have to pay CGT if you

- dispose of an asset, or
- receive a sum of money in respect of an asset.

You only have to pay CGT on disposing of an asset if you have **made a chargeable gain**. Typically, you make a gain if the asset is worth more than it was when you acquired it.

You will only have to pay CGT on a sum of money in respect of an asset if it was a capital sum (a capital sum is one that does not form part of your income for income tax purposes).

You may be treated as making a gain even if you do not receive any money for the asset. For example, you may have to pay CGT if you give an asset to your child.

Certain kinds of asset do not give rise to a chargeable gain when you dispose of them. For example, you will not normally have to pay CGT if you sell your home.

Also, certain kinds of disposal do not give rise to a chargeable gain. For example, you will not normally have to pay CGT if you sell or give an asset to your husband or wife.

You may qualify for reliefs that reduce or defer your chargeable gains.

What is the amount chargeable to CGT?

The amount of CGT is based on the gains that you make on disposals of assets and capital sums that you receive from assets in the tax year. The tax year ends on 5 April.

You work out the amount chargeable to CGT as follows (the rest of this booklet explains the terms and shows you how to work out the numbers).

	Disposal proceeds or sum received from assets	After allowing for reliefs which reduce the figure to be treated as proceeds Sometimes market value is used instead of the actual proceeds
Less	Allowable costs	
	Gain before indexation	If this is a negative number, then you have made a loss, which may be an allowable loss
Less	Indexation allowance	For inflation, up to April 1998; may not create or increase a loss
	Indexed Gain	
Less	Other reliefs	Reliefs other than taper relief which reduce or defer a gain
	Chargeable gain	For each asset individually
Sum	**Total chargeable gains**	Total of all the chargeable gains in the tax year
Less	Allowable losses	Losses in the tax year and unused losses carried forward from earlier years
	Chargeable gains after losses	
Less	Taper relief	A relief that reduces a chargeable gain after losses according to how long you held the asset. Taper relief is applied separately to each chargeable gain.
	Tapered chargeable gains	
Less	Annual exempt amount	£7,200 for the tax year 2000-2001
	Amount chargeable to CGT	

If your tapered chargeable gains are less than or equal to the annual exempt amount, you will not have to pay any CGT. If your tapered chargeable gains are greater than the annual exempt amount, you will have to pay CGT on the excess.

How much CGT will I have to pay?

The rate of CGT you will have to pay depends on the level of your income liable to income tax. The amount chargeable to CGT is added on to the top of your income liable to income tax and is charged to CGT at the appropriate rates. For the tax year 2000-2001, the rates are: 10%, 20% and 40%.

Section 9 shows you how to work out what the right tax rate is.

When do I have to report my gains and losses to my Tax Office?

You must report your gains or losses to your Tax Office if you

- have an amount chargeable to CGT, or
- you wish to claim allowable losses that arose in 1996-97 or a later tax year (the losses will then be deducted from gains of the same tax assessment year or of a later year – and they may not be used in this way unless you have claimed them (see section 5)), or
- you have received a Self-Assessment tax return and the Tax Return Guide tells you that you must fill in the Capital Gains Pages, for example because you have made disposals (other than your home) worth more than the sum specified in the return (£14,400 in 2000-01).

You may not use losses that arose in 1996-1997 or later to offset your gains unless you claim the losses (see section 5). So if the only reason that you would not have an amount chargeable to CGT is because of the deduction of losses that arose in 1996-1997 or later which you have not already told us about, then you must contact the Tax Office to claim the losses.

How do I report my gains and losses to my Tax Office?

How you report gains and losses depends on whether you receive a Self-Assessment tax return.

If you receive a tax return and have to fill in the capital gains pages, you should report your gains and losses by completing the capital gains pages of the return. If you were not sent these pages, you can ask for them from the Orderline (see inside front cover). You must send back the tax return by the date shown on it, otherwise you may have to pay a penalty.

Even if you do not have to complete the capital gains pages, you may still use them to claim losses.

If you have not received a tax return and wish to report gains or losses, you should contact your Tax Office

- If you have an amount chargeable to CGT you should ask your Tax Office to send you the appropriate form. You must tell your Tax Office in writing within six months after the end of the tax year in which the disposal took place, otherwise you may have to pay a penalty. You should use the form to claim any losses arising in the same year
- If you only wish to claim losses, you should write to your Tax Office, setting out the details including identifying the source and giving the amount of the loss. There is a time limit for claiming losses – see section 5.

If you are late in paying tax due, you may have to pay interest and surcharges.

What if I have lived abroad?

If you are not resident, not ordinarily resident or not domiciled in the United Kingdom, there are special rules for determining what gains are chargeable to CGT. If you think these rules might apply to you, read leaflet IR20 'Residents and non-residents: Liability to tax in the United Kingdom'.

There are also special rules if you are temporarily non-resident. See Help Sheet IR278: Temporary non-residents and Capital Gains Tax.

Husband and wife

Husband and wife are each taxed separately. They each have their own annual exempt amount. The rates at which they each pay CGT reflect their own personal circumstances.

There are some special rules when you transfer an asset to your husband or wife while you are living together. These are set out in later sections. You will not normally have to pay CGT if you sell or give an asset to your husband or wife.

A married couple may normally have private residence relief on only one home – see Section 4.

CGT and children

Often, assets for the benefit of children are held by trustees on their behalf. Except in the case of "bare trustees" (see "what is a bare trust?" below), it is normally the trustees who are assessed to CGT – though in some cases other people may have to pay CGT on trust gains: see the passage 'What about gains made by trusts and companies in which I have an interest?' in Section 2.

Where a child owns assets directly, or where a bare trustee acts on behalf of the child, it is the child who is assessed to CGT in the same way as an adult is.

Each child has her or his own annual exempt amount. The rate at which he or she pays CGT reflects her or his own income and personal allowances.

There is no special relief for disposals to your children. However, special rules apply to determine the value of assets that you dispose of to them – see the passages 'When am I treated as receiving disposal proceeds equal to the market value of an asset?' and 'What are acquisition costs?' in Section 3.

You can find out more about trusts in Help Sheet IR294: Trusts and Capital Gains Tax.

CGT and trusts

A trust (other than a bare trust - see next passage) is treated as a separate taxpayer for CGT. If you are a trustee you are responsible for working out the amount of the trust gains and for notifying the Tax Office where appropriate.

You will normally also be responsible for paying any CGT due. Sometimes the settlor may be liable to pay CGT on trust gains, but, if so, he or she has the right to recover the tax from you (see the passage 'What about gains made by trusts and companies in which I have an interest?' in Section 2).

This booklet describes CGT as it affects individuals.

The way in which you work out CGT for trusts is very similar to that for individuals, but there are some special rules, for example, to determine when an asset is a business asset for taper relief (see Section 6). The annual exempt amount may be different and there is a different rate of tax. A transfer of property into a trust and the occasion when a person becomes entitled to trust property are both disposals for CGT purposes.

You can find out more about CGT and trusts in Help Sheet IR294: Trusts and Capital Gains Tax. You can find out more about special rules affecting trustees in some of the individual help sheets on specific aspects of CGT.

What is a bare trust?

A trustee is a "bare trustee" where the beneficiary of the trust is absolutely entitled to the assets in the trust, or would be absolutely entitled if he or she was not a minor. Where there is a bare trust, the gains of the trust are treated as the gains of the beneficiary.

SECTION 2: ASSETS AND DISPOSALS

When can a chargeable gain arise?

You may have a chargeable gain when

- you dispose of an asset

or

- you derive a capital sum from your ownership of an asset.

What is an asset?

Any form of property may be an asset for CGT purposes, including

- shares in a company
- units in a unit trust
- land and buildings
- business assets, such as machinery and goodwill.

Assets which do not give rise to chargeable gains

There is normally no chargeable gain when you dispose of **your home**, provided that certain conditions are met. You should look at the notes in Section 4.

Certain other assets do not give rise to a chargeable gain when you dispose of them, including

- your private car
- personal effects and goods worth £6,000 or less (see Help Sheet IR293: Chattels and Capital Gains Tax)
- cash held in sterling
- foreign currency held for your or your family's personal use
- Savings Certificates, Premium Bonds and British Savings Bonds
- UK Government stocks (gilts)
- shares in an Enterprise Investment Scheme (EIS) company or a Venture Capital Trust (VCT), provided certain conditions are met
- shares held in an approved all-employee share ownership plan provided you keep the shares in the plan until you dispose of them
- assets held in a Personal Equity Plan (PEP) or an Individual Savings Account (ISA).

When am I treated as the owner of an asset?

You may have a chargeable gain if you are the beneficial owner of the asset.

Sometimes, the beneficial owner is not the same as the legal owner, for example when an asset is legally owned by

- a bare trustee – see "What is a bare trust?" in section 1, or
- a nominee.

What if I am the joint owner of an asset?

Sometimes you may be the joint beneficial owner of an asset with one or more other people. For example, a husband and wife may be joint beneficial owners of some assets.

When a jointly owned asset is disposed of, each beneficial owner is treated as making a separate disposal based on their share of the proceeds and the costs. Your share of the proceeds will reflect your share of the beneficial ownership.

If you are a joint owner, you should apply the rules for working out CGT to your separate disposal.

Sometimes CGT reliefs will have different results for the different joint owners. For example, you may be entitled to business assets taper relief while another joint owner is entitled to non-business assets taper relief – see Section 6.

What is a disposal?

A disposal occurs when you

- sell an asset
- give away an asset, or
- exchange one asset for another asset.

What if I dispose of part of my interest in an asset?

This is a disposal for CGT purposes. You will only be able to deduct part of the allowable costs of the asset when working out your chargeable gain.

In some cases, we will ignore a part disposal if the amount of the disposal proceeds is small compared to the value of the whole asset. If you think this may apply to you, ask your Tax Office whether you may have this special treatment in your circumstances .

There may also be a transaction treated as a part disposal where the value of an asset that you own is reduced and the value of an asset owned by someone else increases as a result. An example is where you control a company and change the rights attaching to your shares in the company so that value passes out of your shares and into shares owned by someone else.

What is the date of disposal?

If you dispose of an asset under a contract, the date of disposal is usually the date of the contract. However, if the contract is conditional – that is, it contains one or more conditions which have to be met before it becomes binding – the date of disposal is the date on which the last of the conditions is met.

If you do not make the disposal under a contract other rules apply. For example, if you give away an asset the date of disposal is the date on which you make the gift.

What if I dispose of an asset to my husband or wife?

Provided that you and your husband or wife are living together, you will not normally have to pay CGT when you sell or give an asset to him or her.

Instead, you are treated as receiving disposal proceeds equal to the allowable costs plus indexation allowance (where you acquired the asset before April 1998). So, you are treated as making neither a chargeable gain nor an allowable loss.

When your husband or wife comes to sell the asset, he or she will be treated as having your allowable costs plus indexation allowance – see Section 3.

The exception is when you dispose of your trading stock to your husband or wife or if you dispose of an asset that he or she uses as trading stock. That counts as a disposal in the normal way.

What if I give an asset to charity?

When you give an asset to a charity you do not normally have to pay CGT.

You also do not normally have to pay CGT if you give an asset to certain other institutions, such as national or local authority museums or art galleries.

Instead, you are treated as receiving disposal proceeds equal to the allowable costs plus indexation allowance (where you acquired the asset before April 1998). So, you are treated as making neither a chargeable gain nor an allowable loss.

You may also be able to save CGT if you sell your asset to a charity or other similar institution for less than its full value.

See Help Sheets IR295: 'Relief for gifts and similar transactions' and IR178: 'Giving shares and securities to charity'.

You may also qualify for relief from income tax, see leaflet IR65 'Giving to charity by individuals'.

What if I exchange shares for other shares when a company is taken over or reorganises its share capital?

You may not have to pay CGT on such a disposal. Instead any CGT may be deferred until you dispose of the replacement shares or loan notes.

You may have to pay some CGT if you receive cash as well as the new shares.

See Help Sheet IR285: Share reorganisations, company take-overs and Capital Gains Tax.

What about when someone dies?

When a person dies and their assets pass to their personal representatives, this is not treated as a disposal for CGT purposes.

Personal representatives do not have to pay CGT when they distribute the assets to legatees.

Personal representatives are liable to pay CGT on any gain they make when they dispose of an asset other than to legatees. The acquisition cost they use to work out the gain is the market value of the asset at the date of death.

If they have worked out the market value at the date of death for purposes of Inheritance Tax, that is the value they should use.

Personal representatives have the same annual exempt amount (see Section 9) as individuals for the year of death and the next two years, but nothing after that. The rate of tax is the rate applicable to trusts (34% in the tax year 2000-01). They are entitled to taper relief and other reliefs, but there are some provisions that apply only to them.

If as legatee you receive an asset from personal representatives, you are treated as having acquired the asset at its value at the date of death, or at the acquisition cost of the personal representatives if they acquired it later.

See Help Sheet IR282: Death, personal representatives and legatees.

What capital sums can give rise to a chargeable gain?

Examples of capital sums on which you may have to pay CGT include

- compensation for damage to an asset
- cash payments from mutual bodies, such as building societies and insurance companies, when they convert into a public limited company or are taken over by such a company (but not free shares – any gain will arise when you dispose of the shares)
- the proceeds of maturity of a life insurance policy where you were not the original beneficiary of the policy and had bought the right to the proceeds from a third party.

Certain capital sums do not give rise to a chargeable gain, including

- personal injury compensation
- proceeds of a life insurance policy when you were the original beneficiary
- betting, lottery or pools winnings
- bonuses from Tax Exempt Special Savings Accounts (TESSAs)
- Save As You Earn (SAYE) terminal bonuses and
- certain compensation payments for mis-sold pensions.

What date should I use when I receive a capital sum?

You should treat as the date of disposal the date on which you received the capital sum.

What about assets situated abroad?

You may own assets outside the UK. Those could include tangible assets such as land and buildings or shares in a company that is registered outside the UK.

In most cases, CGT applies to assets that you own directly and that are situated abroad just as it does to assets in the UK.

In some cases you may have to pay tax overseas. You may then be able to claim a relief – see Section 9 ‘What if I have paid foreign tax on my gains?’.

Different rules apply if you are not domiciled in the UK – see Section 1 ‘What if I have lived abroad?’.

What about gains made by trusts and companies in which I have an interest?

If someone holds an asset on your behalf as a nominee or a bare trustee, any gain arising on the asset is treated as your gain for CGT purposes.

You may also have to pay CGT on chargeable gains made by certain other trusts or companies, including

- trusts resident in the UK of which you are a settlor (a person who puts property into the trust) and from which you or your husband or wife can benefit
- trusts not resident in the UK of which you are a settlor and from which you, or certain persons close to you, can benefit
- trusts not resident in the UK from which you have received capital payments
- certain kinds of company not resident in the UK in which you hold an interest.

SECTION 3: WORKING OUT THE CHARGEABLE GAIN

When can a chargeable gain arise?

You may have a chargeable gain when

- you dispose of an asset

or

- you receive a capital sum from your ownership of an asset.

Typically, you have a chargeable gain where the asset is worth more when you dispose of it than it was when you acquired it. The rest of this section tells you how to work out chargeable gains, including how to take account of allowable costs and (where you acquired the asset before April 1998) of indexation allowance.

If you dispose of an asset that you already held on 31 March 1982 there are special rules, called the rebasing rules, that ensure that only any increase in value after that date is taken into account when working out your chargeable gain.

You may qualify for reliefs that eliminate, reduce or defer your chargeable gains (see next section). That means in some cases that a disposal of one asset may bring into charge a gain that had been deferred from the earlier disposal of another asset.

A gain will not be a chargeable gain if it forms part of your income for income tax purposes.

A summary of the calculation

In outline, a calculation of a chargeable gain on the disposal of an asset will use the format below. The terms used will be explained in the following pages.

	Disposal proceeds		£25,000
Minus	Allowable Costs		£14,100
	(a) Cost of acquisition	£8,000	
	(b) Incidental costs of acquisition	£900	
	(c) Enhancement costs	£3,500	
	(d) Costs of establishing or defending title	£500	
	(e) Incidental disposal costs	£1,200	
Equals	Gain before indexation		£10,900
Minus	Indexation allowance on a, b, c and d only (for periods to April 1998 only)		£3,250
Equals	Chargeable gain		£7,650

If the calculation of the *gain before indexation* produces a negative number, you have made a loss. See Section 5 for the rules on **allowable losses**.

What are the disposal proceeds?

In most cases, the disposal proceeds are the amount you actually receive for disposing of the asset, including

- cash payable now or in the future
- the value of any asset you receive in exchange for the asset you have disposed of
- the value of a right to receive future payments which are uncertain and depend on future events.

In certain circumstances, you may be treated as disposing of an asset for an amount other than the actual amount (if any) that you receive.

When am I treated as receiving disposal proceeds equal to the market value of an asset?

If you dispose of an asset

- to a connected person, or
- under a bargain that is not made at arm's length (for example, a gift or a sale for a price that you know is below market value), or
- in return for something that cannot be valued

you are treated as receiving disposal proceeds equal to the market value of the asset at the time you disposed of it, rather than the actual amount (if any) that you receive.

Who are connected persons?

Examples of connected persons are

- your relatives
- your husband's or wife's relatives
- your business partners and their husbands, wives and relatives
- a company that you control, either by yourself or with any of the persons listed above
- the trustees of a settlement of which you are a settlor, or of which a person who is still alive and who is connected with you is a settlor.

What is market value?

This is the price that an asset might reasonably have been expected to fetch if it had been sold on the open market.

In the case of shares or securities quoted in the London Stock Exchange Daily Official List, the market value is worked out according to a special rule. You should use the lower of

- a figure one-quarter up from the lower of the two prices in the quotations for the relevant day, or
- the figure halfway between the highest and lowest prices of normal recorded bargains for that day.

What are allowable costs?

When you are working out your chargeable gain you can deduct five kinds of allowable costs. These are

- acquisition costs
- incidental costs of acquisition
- enhancement costs
- expenditure on defending or establishing your rights over the asset
- incidental costs of disposal.

You cannot deduct any costs which could be taken into account when working out your income or losses for income tax purposes.

If you dispose of

- part of your interest in an asset, or
- part of a holding of shares of the same class in the same company, or
- part of a holding of units in the same unit trust

you can deduct part of the allowable costs of the asset or holding when working out your chargeable gain.

Allowable costs may be reduced

- if the asset is a "wasting asset",
- by some reliefs.

What are acquisition costs?

Usually, these are the actual amount you paid to acquire the asset. If you bought the asset, this will be the purchase price you paid. If you created the asset yourself, this will be the capital expenditure you incurred in creating the asset.

In certain circumstances, you may be treated as having acquired an asset for an amount other than the actual amount (if any) that you paid for it. For example, if you

- acquired the asset from your husband or wife while living together, you are treated as having acquired it for the amount that your partner had originally paid for it together with his or her allowable costs and indexation allowance
- acquired at different times shares of the same class or units in the same unit trust – see below

- acquired shares by exercising an employee share option and paid income tax on the difference between what you paid for the shares and their market value when you exercised the option, you are treated as having acquired the shares for the amount you paid for the shares together with anything you paid for the share option and the amount on which you paid income tax when you exercised the option. Look at Help Sheet IR287: Employee Share Schemes and Capital Gains Tax
- acquired the asset
  - from a connected person, or
  - under a bargain that was not made at arm's length, or
  - in return for something that cannot be valued

  you are treated as having acquired the asset for its market value at the time you acquired it
- inherited the asset, you are treated as having acquired it for its market value at the date of death (or, exceptionally, at the date on which the personal representatives of the deceased acquired it)
- became absolutely entitled to the asset after it had been held in a trust, you are treated as having acquired it for its market value at the date on which you became absolutely entitled to it
- held the asset at 31 March 1982, the acquisition price may be adjusted under the rebasing rules (see below)
- obtained a roll-over relief on the disposal of an earlier asset, the allowable acquisition cost of the replacement asset may be reduced.

If you have disposed of shares that you acquired in exchange for other shares when a company was taken over or reorganised its share capital, special rules may apply to determine the acquisition cost of the shares. See Help Sheet IR285: Share reorganisations, company take-overs and Capital Gains Tax.

What are incidental costs of acquisition and disposal?

These are incidental costs that you incurred for the purpose of acquiring or disposing of the asset, such as

- fees, commission or remuneration paid for professional advice
- the costs of transferring the asset
- stamp duty
- the costs of advertising to find a buyer or seller
- the costs of any valuations needed to work out your chargeable gain (but not the costs of resolving any disagreement with the Inland Revenue about your valuations).

If you use a valuation to work out your chargeable gain, you can ask the Inland Revenue to check the valuation for you (see Appendix 1 on page 00).

What are enhancement costs?

These are costs which

- you incurred for the purpose of enhancing the value of the asset, and
- are still reflected in the state or nature of the asset at the date of its disposal.

You may not claim the cost of normal maintenance and repairs.

How should I treat Value Added Tax (VAT)?

If you paid VAT when you acquired or enhanced an asset or when you incurred incidental costs of acquisition and disposal, you should normally count the VAT you paid as part of your allowable costs.

However, if you are a trader and can treat the VAT you paid as deductible input tax or if it is available for set-off in your VAT account, then the allowable costs should be your expenditure apart from VAT.

If VAT is charged when you dispose of an asset, you should work out the gain by reference to the proceeds excluding the VAT.

What allowable costs can I deduct when I dispose of part of an asset?

If you dispose of part of your interest in an asset

- allowable costs which relate wholly to the part you have disposed of are deductible in full
- allowable costs which relate wholly to the part you have retained are not deductible
- a proportion of allowable costs which relate both to the part you have disposed of and the part you have retained is deductible.

The deductible proportion is calculated using the following fraction

$$\frac{\text{Disposal proceeds}}{\text{Disposal proceeds + Value of part retained.}}$$

What allowable costs can I deduct when I dispose of shares or units in a unit trust?

Generally this will be the amount that you paid for the shares, securities or units.

However, special rules apply if you dispose of all or part of a holding of

- shares or securities of the same class in the same company, or
- units of the same class in the same unit trust

that you built up through two or more acquisitions made on different dates.

You need to follow the share identification rules – see the next passage. These rules tell you which shares or units you are held to have disposed of. You then use the allowable costs relating to those shares.

The share identification rules

If the share identification rules apply (see previous passage) you must follow them. You may not choose for yourself which shares or units in your holding you have disposed of. The rules tell you

- which shares, securities or units you are treated as having disposed of, and
- what acquisition cost you can deduct when calculating your chargeable gain.

You are treated as having disposed of shares or units in the following order.

- Firstly, any you acquired on the date of the disposal.
- Then any you acquired within the 30 days immediately following the date of the disposal.
- Then any you acquired after 5 April 1998, taking the most recent acquisitions first.
- Then any you acquired between 6 April 1982 and 5 April 1998.
- Then any you acquired between 6 April 1965 and 5 April 1982.
- Then any you acquired before 6 April 1965.

Shares or units you acquired on or after 6 April 1982 and on or before 5 April 1998 will be "pooled". If, under the rules described above, you are treated as making a disposal from the pool, the allowable acquisition cost will be the average acquisition cost of the pool.

The cost price of shares that you acquired before 5 April 1982 may be rebased to their value on 31 March 1982, see the following example.

Example 1

You have bought and sold on the open market ordinary shares in the same company as follows

1,000 shares acquired on 1 May 1998 at £5 per share
1,000 shares acquired on 1 September 1998 at £6 per share
1,000 shares acquired on 1 December 1998 at £5.50 per share
1,500 shares sold on 1 June 2001 at £8 per share

There were no acquisitions on the date of the disposal, or in the subsequent 30 days. So, you match the disposal with shares you acquired after 5 April 1998, taking the most recent acquisitions first. It follows that the allowable acquisition cost of the 1,500 shares sold on 1 June 2001 is

1,000 @ £5.50 per share	= £5,500
+	
500 at £6 per share	= £3,000
	£8,500

Example 2

You have bought and sold on the Stock Exchange ordinary shares in the same company as follows

1,000 shares acquired on 15 June 1996 at £2 per share
1,000 shares acquired on 1 May 1998 at £5 per share
1,000 shares sold on 5 April 1999 at £7 per share
1,000 shares acquired on 7 April 1999 at £7.05 per share
1,500 shares sold 1 September 2002 at £10 per share.

Disposal on 5 April 1999

There were no acquisitions on the date of the disposal. So, you match the disposal with shares you acquired within the 30 days following the disposal. It follows that the allowable acquisition cost of the 1,000 shares sold on 5 April 1999 is 1,000 @ £7.05 per share = £7,050.

Disposal on 1 September 2002

There were no acquisitions on the date of the disposal, or in the subsequent 30 days. So, you match the disposal with

- shares you acquired after 5 April 1998, taking the most recent acquisitions first (but not the shares you acquired on 7 April 1999; you have already disposed of them),
- the shares you acquired between 6 April 1982 and 5 April 1998.

It follows that the allowable acquisition cost of the 1,500 shares sold on 1 September 2002 is

1,000 @ £5 per share	= £5,000
+	
500 at £2 per share	= £1,000
	£6,000

The rules for matching disposals and acquisitions of shares and units, and the rules for "pooling", are explained more fully in Help Sheet IR284: Shares and Capital Gains Tax. If you have acquired shares in connection with your employment, you might also want to look at Help Sheet IR287: Employee Share Schemes and Capital Gains Tax. If you acquired some of the shares in a share exchange, you may wish to look at Help Sheet IR285: Share reorganisations, company take-overs and Capital Gains Tax.

What about share transactions between husband or wife?

If you have a number of shares of the same class in the same company and you dispose of some of them to your husband or wife, the share identification rules (see above) tell you which shares you are held to have disposed of.

You may have a number of shares of the same class in the same company, and have acquired some or all of them from your husband or wife. When you come to dispose of some of them, the dates that matter for the share identification rules are the dates that you acquired them, not the time when your husband or wife did.

But you may take into account the period when your husband or wife held the shares in working out how much taper relief you are entitled to (see "What is the qualifying holding period for assets I acquired from my husband or wife?" in Section 6).

What is a wasting asset?

A wasting asset is one that had a predictable life of 50 years or less when you first acquired it. All plant and machinery is treated as a wasting asset. If you have disposed of a wasting asset, the allowable costs may be reduced to take account of the remaining predictable life of the asset. See Helpsheet IR293: Chattels and Capital Gains Tax.

What are the rebasing rules?

If you dispose of an asset that you have held since 31 March 1982, the rebasing rules ensure that only any increase in value after that date is taken into account when working out your chargeable gain.

You may be able to choose to disregard completely the actual acquisition costs of all assets you held at 31 March 1982 when you calculate your gains and losses. The answer to the next question explains when you are able to do this. Unless you make that choice, you have to calculate each gain or loss on assets you held on 31 March 1982, using both their market value at that time and their original acquisition cost and

- if both calculations show a gain, the smaller of the gains is the chargeable gain
- if both calculations show a loss, the smaller of the losses is the allowable loss
- if one calculation shows a gain and the other shows a loss, there is neither a chargeable gain nor an allowable loss.

See Help Sheet IR280: Rebasing - assets held at 31 March 1982.

How can I avoid having to retain records of the cost of assets I acquired before 31 March 1982?

You may be able to choose not to make the comparisons referred to in the previous question. Instead, you work out the gains or losses on all assets you held on 31 March 1982 using their market value at that time without taking any account of the actual acquisition costs.

If you wish to calculate your gains and losses on all the assets you held at 31 March 1982 using only their market value at that time, you should tell your Tax Office that you wish to do this by the second 31 January after the end of the tax year in which you first dispose of such an asset.

For example, if you first dispose of an asset you held on 31 March 1982 in June 2001 (in the tax year 2001-2002) you should tell your Tax Office by 31 January 2004 that you choose this treatment for all the assets that you held on 31 March 1982.

Once you make this choice you cannot change your mind.

See Help Sheet IR280 Rebasing - assets held at 31 March 1982.

What is indexation allowance?

This is an allowance which reduces gains for the effects of inflation. It only applies to assets you acquired before April 1998. See Appendix 2 on page 00 for more details of how to work out indexation allowance.

Indexation cannot create or increase a loss. If indexation would turn a gain into a loss, the result is capped at zero – that is, there is no gain or loss.

What do I do next?

You have now worked out the chargeable gain or loss on each of your disposals, after deducting allowable costs, indexation allowance, and applying reliefs other than taper relief (Section 4).

If you made a chargeable gain on all of your disposals and the total of your chargeable gains is less than the annual exempt amount, then you do not have to pay any CGT, see Section 8.

If you

- did not make any loss, and
- do not have any loss carried forward from an earlier year, and
- you have chargeable gains in excess of the annual exempt amount you should look at Section 6 to see whether taper relief will reduce your chargeable gains.

If you made a loss on some of your disposals, or if you have a loss brought forward from an earlier year, you should look at Section 5 to see whether you can deduct the loss from your chargeable gains or carry the losses forward to use in a later year.

SECTION 4: RELIEFS (APART FROM TAPER RELIEF)

You may qualify for reliefs which reduce or defer your chargeable gains. Some reliefs that defer chargeable gains work by reducing the acquisition cost of a replacement asset, so that the chargeable gain you make when you subsequently dispose of that asset will be increased.

Some reliefs are given automatically: you do not have to claim them. Others are given only if you claim them.

The most common reliefs are described briefly below. You can get more details in the relevant help sheet or booklet.

Taper relief, which is given after all other reliefs and allowable losses, is explained separately in Section 6 below.

What if I sell my home?

No chargeable gain arises when you dispose of your home if **all** the following conditions are met.

- You bought it, and made any expenditure on it, primarily for use as your home rather than with a view to making a profit.
- Throughout the period that you owned it, it was your only home.
- You did actually use it as your home all the time that you owned it.
- Throughout the period that you owned it, you did not use it for any purpose other than as a home for yourself, your family and no more than one lodger.
- The house and garden do not exceed half a hectare (about one and a quarter acres).

Even if not all these conditions are met, you may still be entitled to relief. For example

- if you had more than one home, you may be able to nominate one of them as your main home for the purposes of the relief
- if all the conditions were met throughout all but the last three years of the period that you owned your home, you will still be entitled to the full relief
- if you lived away from home temporarily (for example, while working abroad), you may still be entitled to the full relief
- if all the conditions were met for part of the period that you owned your home, you will still be entitled to some relief
- if you used part of the building as your home and part for some other purpose (for example, for business purposes or for letting) you will still be entitled to some relief.

You may also qualify for the relief if

- you sell part of the garden or outbuildings belonging to your home without selling the home itself, or
- your home is a fixed caravan or houseboat.

Married couples may have relief from CGT on only one home. However

- you and your husband or wife may each have had a qualifying home before you were married. After marriage you both live together in one of these homes and sell the other. Provided that it is sold within three years of marriage, you may not have to pay any CGT (subject to the normal rules for this relief). If you sell it after more than three years of marriage it may qualify for partial relief, and
- there are special rules on divorce and separation.

See Help Sheet IR283: Private residence relief.

What other reliefs are available?

Business asset roll-over relief allows you to defer the gain on the disposal of a business asset when you acquire another business asset. See Help Sheet IR290: Business asset roll-over relief.

Business transfer relief defers a gain where you transfer your business to a company in return for shares.

Relief on disposals of shares to an approved all-employee share ownership plan. You can defer gains on disposals after 27 July 2000 of shares that are not listed on a recognised stock exchange provided certain conditions are met. See Help Sheet IR287: Employee Shares Schemes and Capital Gains Tax, editions issued after 5 April 2001.

Gifts holdover relief allows you to defer the gain on the disposal of certain assets that you give away or sell for less than their market value. See Help Sheet IR295: Relief for gifts and similar transactions.

Retirement relief reduces a chargeable gain when you dispose of your business or shares in your trading company and you are

- aged 50 or over, or
- retire before that age owing to ill-health.

Retirement relief is being phased out. It will not apply to gains arising after 5 April 2003.

See Help Sheet IR289: Retirement relief and Capital Gains Tax.

Enterprise Investment Scheme (EIS) deferral relief allows you to defer the gain on the disposal of an asset when you subscribe for shares in an EIS company. See booklet IR137: The Enterprise Investment Scheme and Help Sheet IR297: Enterprise Investment Scheme and Capital Gains Tax.

Venture Capital Trust (VCT) deferral relief allows you to defer the gain on the disposal of an asset when you subscribe for shares in a VCT. See Help Sheet IR298: Venture Capital Trusts and Capital Gains Tax.

Halving relief reduces by half certain gains deferred from before April 1988. See Help Sheet IR280: Rebasing - assets held at March 1982.

Unremittable gains relief allows you to defer a gain on the disposal of an overseas asset where you are unable to transfer the gain to the United Kingdom because of exchange controls or a shortage of foreign currency in the country in which the asset was situated.

SECTION 5: ALLOWABLE LOSSES

How do I work out my allowable losses?

You may have an allowable loss if

- you dispose of an asset or receive a capital sum from your ownership of an asset and the allowable costs are greater than the disposal proceeds or capital sum, or
- an asset you own has become of negligible value and you make a claim to your Tax Office.

You work out an allowable loss in the same way that you work out a chargeable gain, except that you cannot use indexation allowance to create or increase an allowable loss. If indexation allowance would turn a gain into a loss, the result is capped at zero, that is no gain or loss.

If an asset or disposal is of a kind that cannot give rise to a chargeable gain, then it cannot give rise to an allowable loss. Exceptions are losses arising on

- shares in an Enterprise Investment Scheme (EIS) company, and
- certain loans to businesses.

If a loss could be taken into account when working out your income for income tax purposes, it is not an allowable loss for CGT purposes.

How are losses allowed?

Firstly, you deduct the allowable losses arising in the tax year from the total chargeable gains for the same year. You must deduct all the allowable losses for the year, even if this results in chargeable gains after losses below the level of the annual exempt amount.

If the allowable losses arising in the tax year are greater than the total chargeable gains for the year, you can carry forward the excess losses to be deducted from chargeable gains in future years.

If chargeable gains remain after you deduct the allowable losses arising in the year, you deduct unused allowable losses brought forward from an earlier year. You only deduct sufficient allowable losses brought forward to reduce the chargeable gains after losses to the level of the annual exempt amount. Any remaining losses brought forward are carried forward again to be deducted from chargeable gains in future years.

You deduct losses brought forward from 1996-1997 or a later tax year before losses brought forward from earlier years.

Example 3

In 2000-2001 you make total chargeable gains of £12,000 and allowable losses of £10,000.

You deduct all the allowable losses. There are no losses to be carried forward.
As the remaining chargeable gains (£2,000) are below the annual exempt amount (£7,200) you will not have to pay any CGT. (There is no need for you to work out taper relief.)

Example 4

In 2000-2001 you make total chargeable gains of £12,000 and allowable losses of £15,000.

You deduct all the allowable losses. You can carry forward the excess losses of £3,000.
As there are no chargeable gains remaining, you will not have to pay any CGT.

Example 5

In 2000-2001 you make total chargeable gains of £12,000 and allowable losses of £3,000. There are also unused losses of £8,000 brought forward from 1996-1997.

You deduct all the allowable losses for the year. As chargeable gains of £9,000 remain, you deduct £1,800 of the losses brought forward to reduce the chargeable gains after losses to the level of the annual exempt amount (£7,200).

The remaining £6,200 losses brought forward are carried forward again.
As the chargeable gains after losses do not exceed the annual exempt amount, you will not have to pay any CGT. (There is no need for you to work out taper relief.)

Can I deduct allowable losses after allowing taper relief?

No. Taper relief is given after all other reliefs and allowable losses. Losses are not tapered, so it is right to apply them to untapered chargeable gains.

Can I carry back allowable losses to deduct from gains in earlier years?

Allowable losses cannot normally be carried back.

There is an exception when someone dies – their personal representatives can carry back unused allowable losses arising in the tax year in which the person died and deduct them from total chargeable gains of the three preceding tax years. Losses carried back in this way are allowed in exactly the same way as losses carried forward from one year to another. See Help Sheet IR282: Death, personal representatives and legatees.

Can I deduct allowable losses from any chargeable gains that I make?

If you have made an allowable loss on the disposal of an asset to a **connected person** (see 'Who are connected persons?' in Section 3), you may only deduct that loss from chargeable gains you make on disposals to the same person.

If you have an **interest in a company** and you have to pay CGT on gains that it makes restrictions may apply. Ask your Tax Office for help.

If you have **an interest in a trust** and have its gains treated as your gains, then you may not set your personal losses against the gains attributed from the trust.

What happens if my asset is destroyed?

If you have an asset that is destroyed or ceases to exist, that usually constitutes a disposal for CGT purposes.

For example, if you have shares in a company that is dissolved and removed from, or struck off, the Register of Companies you dispose of the shares when this happens – even if you still hold the share certificate.

That disposal usually gives rise to a loss, which may be an allowable loss.

What can I do if my asset becomes worthless?

If you own an asset that has become worthless you may make a claim to be treated as if you had sold, and immediately re-acquired, the asset for what it is worth. Such a claim is commonly called a 'negligible value' claim.

That deemed disposal usually results in a loss. That loss may be an allowable loss.

There is no time limit for making a negligible value claim. But you can only make a claim before you dispose of the asset.

You will normally be treated as having sold the asset on the date you make the negligible value claim. However, you may specify in the claim that you wish to be treated as if you had sold the asset at a time during the previous two tax years. If you wish to specify a date before the date of claim, you must meet the conditions for making the claim both at that earlier date and at the date when the claim is made.

See Help Sheet IR286: Negligible value claims and Income Tax losses for shares you have subscribed for in unlisted trading companies.

Can I set allowable losses against my income for income tax purposes?

With one exception, losses arising on the disposal of assets chargeable to CGT are only allowable against chargeable gains on such assets and cannot be deducted from income.

The exception is where the loss arises on shares you subscribed for as newly issued shares in an unlisted trading company. See Help Sheet IR286: Negligible value claims and Income Tax losses for shares you have subscribed for in unlisted trading companies and booklet IR137: The Enterprise Investment Scheme.

Do I have to claim my losses?

Yes, if you have made a loss in 1996-1997 or a later tax year. Such a loss will not be an allowable loss unless you report it to your Tax Office. This is the case both for losses on a disposal to someone else and losses on a deemed disposal following a negligible value claim.

Section 1 explains how to report losses to the Tax Office.

Is there a time limit for claiming my losses?

Yes. If you have made a loss in 1996-97 or a later tax year you must report it to your Tax Office within five years and ten months of the end of the tax year in which the loss arose. This applies even if you are carrying the loss forward to be deducted from chargeable gains in future years.

There is no time limit within which losses brought forward must be used.

What do I do next?

You have now worked out your chargeable gains after losses.

If your chargeable gains after losses are equal to or less than the annual exempt amount, you have no CGT to pay and you do not need to work out taper relief – see Section 8.

If the chargeable gains after losses are bigger than the annual exempt amount, you should go to the next section to see whether taper relief will reduce them.

SECTION 6: TAPER RELIEF

When do I have to work out taper relief?

You only have to work out taper relief if your chargeable gains after losses are bigger than the annual exempt amount for the year.

How does taper relief work?

Taper relief reduces a chargeable gain after losses according to how long you held the asset before you disposed of it.

The relief is given after all other reliefs and allowable losses.

The amount of the reduction depends on

- how long you held the asset (the qualifying holding period), and
- whether the asset was a business asset or a non-business asset.

If you have disposed of an asset on or after 6 April 2000, the amount of the chargeable gain on the asset (after deducting allowable losses) remaining chargeable to tax after taper relief is as follows.

Business asset		**Non-business asset**	
Number of whole years in the qualifying holding period	**Gain remaining chargeable (%)**	**Number of whole years in the qualifying holding period**	**Gain remaining chargeable (%)**
Less than 1	100	Less than 1	100
1	87.5	1	100
2	75	2	100
3	50	3	95
4 or more	25	4	90
		5	85
		6	80
		7	75
		8	70
		9	65
		10 or more	60

Different percentages applied for disposals of business assets after 6 April 1998 and before 6 April 2000 (see Appendix 3).

Example 6

You dispose of a non-business asset. There are seven years in the qualifying holding period. You have no allowable loss. The chargeable gain is £10,000.

The table on page 00 shows that the percentage to use in the taper calculation is 75%. After taper relief, only 75% of £10,000, that is, £7,500, remains chargeable to CGT.

See Section 7 for fuller guidance on how to make the calculations.

Do all chargeable gains attract taper relief?

Most chargeable gains attract taper relief if the assets have been held for long enough to qualify.

There are a few types of chargeable gain that never attract taper relief, for example

- royalties received under mineral leases
- cash sums received when a mutual building society or insurance society demutualises
- gains attributed to you as settlor of a trust that is non-resident or dual resident.

What is the qualifying holding period?

This is the period you held the asset, beginning on the later of

- the date on which you acquired the asset, or
- 6 April 1998 .

and ending with the date you disposed of the asset. You then have to work out how many 'whole years' are in the qualifying holding period before looking up the taper rate in the table above.

If you acquired the asset before 17 March 1998, you may qualify for a bonus year (see below).

What is the date of acquisition of an asset?

The rules for working out the date of acquisition are normally the same as for the date of disposal, see Section 2.

However, there are some exceptions.

- Where you acquire shares by exercising a qualifying Enterprise Management Incentives share option or where you acquire shares under an approved all-employee share ownership plan. For information about both of these see Help Sheet IR287: Employee Share Schemes and Capital Gains Tax, editions issued after 5 April 2001, and our website.
- There are different rules if you acquired the asset from your husband or wife.
- If you acquired an asset as legatee, you are normally treated as having acquired it on the date of death of the testator.

What is a whole year?

This is any continuous period of 12 months. It does not have to coincide with a tax year.

Fractions of a year are ignored.

If you dispose of an asset on the anniversary of its acquisition, you are treated as having held it for a whole year but not if it is disposed of before then.

Example 7

You acquired an asset on 1 June 1998 and sell it on 1 July 2004.

As you held the asset for six years and 31 days, there are six whole years in the qualifying holding period.

If the asset was a business asset, 25% of the chargeable gain after losses remains chargeable. If the asset was a non-business asset, 80% of the chargeable gain after losses remains chargeable.

Example 8

You acquired shares on 15 November 1998 and sell them on 1 December 2000.

As you held the shares for two years and 17 days, there are two whole years in the qualifying holding period.

If the shares were business assets, 75% of the chargeable gain after losses remains chargeable. If the shares were non-business assets, 100% of the chargeable gain after losses remains chargeable (in other words, you do not qualify for any taper relief).

Example 9

You acquired an asset on 1 June 2000 and sell it on 1 June 2004.

As you sold the asset on the anniversary of its acquisition, you have completed a fourth whole year in the qualifying holding period.

If the asset was a business asset, 25% of the chargeable gain after losses remains chargeable. If the asset was a non-business asset, 90% of the chargeable gain after losses remains chargeable.

Example 10

You acquired an asset on 4 August 2000 and sell it on 3 August 2001.

As you sold it before the first anniversary of its acquisition, there is no whole year in the qualifying holding period.

So there is no taper relief and the whole of the chargeable gain remains chargeable.

When do I qualify for a bonus year?

You qualify for a bonus year if you dispose of a **non-business** asset which you had acquired before 17 March 1998 and still owned it on 6 April 1998.

You also qualify if before 6 April 2000 you dispose of a **business** asset which you had acquired before 17 March 1998 and still owned it on 6 April 1998.

If you qualify for a bonus year, you work out the number of whole years in the qualifying holding period in the normal way and then add one year to the result to give you the number of whole years including the bonus year when referring to the taper table above.

It is the number of whole years plus the bonus year that tells you how much taper relief you can have.

Example 11

You acquired a non-business asset on 6 April 1996 and sell it on 5 May 2000.

As you acquired the asset before 17 March 1998, you qualify for a bonus year.

As you acquired the asset before 6 April 1998, the qualifying holding period runs from that date.

You held the asset for two years and 30 days from 6 April 1998, so the number of whole years in the qualifying holding period is two. You add on the bonus year to give you three whole years.

Therefore, 95% of the chargeable gain after losses remains chargeable.

What if I have incurred enhancement costs?

The date of any enhancement expenditure is irrelevant, you work out the qualifying holding period by reference to the date you acquired the asset, or 6 April 1998 if later.

How are rights issues and bonus issues treated?

You may have been issued with new shares in a company under a rights issue or a bonus issue. Under a rights issue you have to pay for the new shares. Under a bonus issue (sometimes described as a scrip or capitalisation issue) you receive the new shares free of charge.

For CGT, these kinds of share issue are normally treated as a reorganisation of the company's existing share capital and not as a new acquisition of shares. So, if you dispose of such shares, you work out the qualifying holding period for taper relief by reference to the date you acquired the original shares to which the rights issue or bonus issue related, and not the date on which you were issued with the new shares. If you acquired the original shares on different dates, you apportion the new shares to the different acquisitions reflecting the proportion of shares acquired on the different dates.

Shares or units you acquired on or after 6 April 1982 and on or before 5 April 1998 will be "pooled". The share pooling rules are set out in Section 3 under the question 'What allowable costs can I deduct when I dispose of shares or units in a unit trust?'

There are different rules for rights issues by an Enterprise Investment Scheme company or a Venture Capital Trust, see Help Sheets IR297: Enterprise Investment Scheme and Capital Gains Tax and IR298: Venture Capital Trusts and Capital Gains Tax.

How are scrip dividends treated?

A scrip dividend (sometimes described as a stock dividend) is a dividend paid by a company in the form of additional shares, rather than in cash.

For CGT, shares acquired in this way after 5 April 1998 are treated as a new acquisition. Therefore, you work out the qualifying holding period by reference to the date on which you received the scrip dividend shares.

Shares acquired in this way on or before 5 April 1998 are treated like a rights issue.

What happens when a mutual society demutualises?

In general, when a mutual society including mutual insurance companies and building societies demutualise

- if you receive a cash payment on demutualisation, no taper relief is due
- if you receive shares or securities on demutualisation, the taper clock starts with the date on which the shares are issued.

You should contact the society or your Tax Office for more information about a particular case.

How are share options treated?

A share option is a right to acquire shares. You do not have to pay CGT when you exercise a share option and acquire shares. You may have to pay CGT if

- you dispose of your option rather than exercising it , or
- you dispose of shares that you acquired when you exercised an option.

If you have disposed of your option, you work out the qualifying holding period by reference to the date on which the option was granted.

If you have disposed of shares that you acquired when you exercised an option you work out the qualifying holding period by reference to the date on which you exercised the option and acquired the shares. There is one exception to this rule - where you acquired the shares by exercising an Enterprise Management Incentives share option, see Help Sheet IR287: Employee Share Schemes and Capital Gains Tax (editions issued after 5 April 2001).

What is the qualifying holding period for assets I acquired from my husband or wife?

If you dispose of an asset that you acquired from your husband or wife, you work out the qualifying holding period by reference to the date on which your husband or wife originally acquired the asset. If your husband or wife originally acquired the asset before 17 March 1998, you may qualify for a bonus year.

Example 12

Your husband acquired a non-business asset on 1 March 1998. He gave it to you on 31 March 1999. You sell it on 16 June 2001.

As your husband acquired the asset before 17 March 1998, you qualify for a bonus year.

As your husband acquired the asset before 6 April 1998, the qualifying holding period runs from that date. You and your husband held the asset for three years and 71 days from 6 April 1998, so there are three whole years in the qualifying holding period plus the bonus year = four years.

Therefore, 90% of your chargeable gain after losses remains chargeable.

See also the passage below for how to determine when an asset acquired from your husband or wife is a business asset.

If you acquired shares from your husband or wife that he or she had acquired under Enterprise Management Incentives , your qualifying holding period begins with on the date the shares were acquired by your husband or wife and not the date the options were granted. You should read the Help Sheet IR287: Employee Share Schemes and Capital Gains Tax (editions to be issued after 5 April 2001).

What is a business asset?

A business asset is

- an asset other than shares that is used for the purpose of a trade, profession or vocation carried on by
  - you (either alone or in partnership), or
  - a qualifying company, or
- an asset other than shares used for the purpose of your full-time or part-time employment with an employer who carries on a trade (for any period before 6 April 2000, the employment must have been full-time), or
- shares or securities held in a qualifying company.

If you acquired an asset as legatee, there are different rules for deciding whether it was a business asset in the time that the asset was held by the personal representatives. There are also different rules for assets owned by trusts. See Help Sheet IR279: Taper Relief.

What is a qualifying company?

From 6 April 2000, a qualifying company includes

- any trading company, or holding company of a trading group, provided you are an employee or officer of the company or its subsidiary or of a qualifying joint venture company
- any trading company, or holding company of a trading group, provided it is not listed on a recognised stock exchange and is not a subsidiary of such a listed company

- any listed trading company, or holding company of a trading group, provided you control not less than 5% of the voting rights in the company.

For any period before 6 April 2000, a qualifying company was a trading company or the holding company of a trading group in which you either

- were able to exercise not less than 25% of the voting rights, or
- were a full-time working officer or employee and were able to exercise not less than 5% of the voting rights.

The text above describes the definition of a business asset as set out in the existing law. In his November 2000 Pre-Budget Report the Chancellor of the Exchequer made proposals to amend the law.

He proposed that shares owned by employees and officers in the companies where they work would count as business assets even if the companies were not trading. This extension would be subject to restrictions to protect revenue. So it would not apply to all employee shareholdings in all companies.

The proposed new rules would apply in respect of periods of ownership from 6 April 2000.

If you think that you might be affected by the proposals, you will need to wait until the Finance Act 2001 is passed to see whether the new rules have become law. Typically, Finance Acts are passed in about July. You will then be able to find out more by logging on to our website or by contacting your Tax Office.

We will also be revising the Helpsheet IR279: Taper Relief once the law has been changed and you will be able to look at it on our website or obtain a copy from the Orderline.

In the meantime you can find out more about the proposal by looking at the Pre-Budget Report press releases on our website. There may also be later news releases that are relevant, for example after the 2001 Budget .

If you owned shares in a company both before and after 6 April 2000, you need to apply the tests separately to see whether the company was a qualifying company in the period up to 5 April 2000 and in the period from 6 April 2000. If it was a qualifying company in one period but not in the other, you should see the passage 'What if I used an asset only partly as a business asset or for only part of the time as a business asset?'.

What is a trading company?

This is a company all, or substantially all, of whose activities are trading.

If a company has significant non-trading activities, it will not qualify as a trading company, even if its main activity is trading. Most commercial activities are trades, but property investment (apart from furnished holiday lettings) and investment in shares are not trades.

If you are unsure whether a company in which you own shares is a trading company, ask the company. The company can ask its Tax Office for help if it is not sure.

What is the holding company of a trading group?

A holding company is a company whose business (ignoring its own trade) is wholly or mainly to hold shares in companies where it owns more than 50% of the shares.

The holding company together with these subsidiaries is the group.

The group is a trading group if all, or substantially all, of its activities are trading.

If you are unsure whether a company is the holding company of a trading group, ask the company.

What is a recognised stock exchange?

The London Stock Exchange is a recognised stock exchange. Shares traded on the Alternative Investment Market (AIM) are not listed on a recognised stock exchange.

You can get a full list of all recognised stock exchanges in the UK and overseas on our website.

Is property that I let out a business asset?

Property that is let to a qualifying company and used by it for the purpose of trade is a business asset.

Property that is used by you in a business of providing furnished holiday lettings is also a business asset. (Ask your Tax Office if you need to know what qualifies as a furnished holiday lettings business.)

Other property that you let out, including any residential property, is a non-business asset.

What if I used an asset only partly as a business asset or for only part of the time as a business asset?

You may have an asset that has been both a business asset and a non-business asset, for example

- an asset may have had both business and non-business use at the same time. For example, you might have owned a building, part of which was used by you as a shop and part of which was let out as a flat, and

- an asset might have been a business asset for some of the time and a non-business asset at another time. For example, you might own a few shares in an unlisted trading company where you do not work. These shares would be business assets (after 6 April 2000). If the company becomes listed, they would stop being business assets from the date of listing.

When you look at whether an asset was a business asset or a non-business asset, you look only at the "relevant period of ownership" which is the shorter of

- the last ten years of the time you owned it up to the date of disposal, or
- the time you owned it from 6 April 1998 up to the date of disposal .

Example 13

You bought an asset on 6 June 2000. You sell it on 15 July 2015. The relevant period of ownership runs from 15 July 2005to 15 July 2015.

Example 14

You bought an asset on 1 January 1992. You sell it on 6 June 2001. The relevant period of ownership runs from 6 April 1998 to 6 June 2001.

If you have disposed of an asset which you used partly as a business asset and partly as a non-business asset during the relevant period of ownership, then you have to apportion the chargeable gain into a gain on a business asset and a gain on a non-business asset. You will qualify for business asset taper relief on one part and non-business asset taper relief on the other part. You work out the amount of each relief using the full qualifying holding period. See Appendix 4 and Help Sheet IR 279: Taper Relief.

What if I have shares in the company where I work and then retire?

If you own shares in the trading company or the holding company of a trading group for which you work, and they were business assets to the date of your retirement, they stop being business assets at that point because you are no longer an employee of the company (unless the company is a qualifying company under another heading, for example if it is an unlisted trading company).

Retirement does not stop the shares being business assets before retirement. You will carry on receiving the benefit of business asset taper on part of your chargeable gain for as long as the time when the shares were business assets is within the relevant period of ownership when you come to dispose of them.

When you come to dispose of the shares you will need to apportion the chargeable gain into a chargeable gain on a business asset and a chargeable gain on a non-business asset, see the previous passage.

Example 15

On 1 June 2001 you bought some shares in the listed trading company where you worked. You never controlled at least 5% of the votes. You retired from the company on 1 June 2003. On 1 June 2006 you sold the shares.

The relevant period of ownership is from 1 June 2001 to 1 June 2006 – five years.

The shares were a business asset from 1 June 2001 to 1 June 2003 – two years.
The shares were a non-business asset from 1 June 2003 to 1 June 2006 – three years.

Therefore two fifths of the overall gain is treated as a gain on a business asset, and three fifths is treated as a gain on a non-business asset.

Example 16
On 13 May 2000, you acquired some shares in the listed trading company where you worked. You never controlled at least 5% of the votes. You retired from the company on 1 August 2003. On 17 October 2013 you sold the shares.

The relevant period of ownership is from 17 October 2003 to 17 October 2013.

The shares were non-business assets throughout the relevant period of ownership. So the whole of the gain is treated as a gain on a non-business asset.

What about assets I acquired from my husband or wife?

If you acquired an asset other than shares or securities from your husband or wife, it will be treated as a business asset during the Relevant Period of Ownership

- at any time in the combined period when you or your husband or wife owned it when it qualified as a business asset by reference to you, and
- at any time before your husband or wife disposed of it to you when it qualified as a business asset by reference to your husband or wife.

Example 17

Several years ago, your husband bought a property. Subsequently, he gave it to you. Some time later, you sell it. Throughout, you have occupied the property for business purposes.

The property is treated as a business asset throughout the combined period when you and your husband owned it, because throughout that period you used it for your business.

If you acquired shares or securities from your husband or wife, they will be treated as business assets at any time during the Relevant Period of Ownership in the combined period when you or your husband or wife owned them when they qualified by reference to your circumstances.

Example 18
Your wife is an employee of XYZ plc, a listed trading company. A few years ago, she acquired a small holding of shares in the company. Subsequently, she transferred the shares to you. Some time later, you sell them. Throughout, you have been self-employed.

As you are not an employee of XYZ plc and do not control 5% of the voting rights in the company, the shares are treated as non-business assets throughout the combined period when you and your wife held them.

Example 19
In 1996, your husband bought some shares in ABC Ltd, a listed trading company. He transferred the shares to you on 6 April 2001. Neither of you ever controlled at least 5% of the voting rights. You sold the shares on 6 April 2006.

Your husband never worked for ABC, but you started to work for ABC in 1996 and were still employed there when you sold the shares.

The relevant period of ownership runs from 6 April 1998 to 6 April 2006 – eight years.

In that time, the shares were a non-business asset from 6 April 1998 to 6 April 2000 (two years) and a business asset from 6 April 2000 to 6 April 2006 (four years). That is because they qualify as business assets from 6 April 2000 because you worked for the company and either you or your husband owned the shares at the time.

How can I find out more about taper relief?

For more detailed information, see Help Sheet IR 279: Taper Relief.

What do I do Next?

The next section shows you how to apply taper relief to work out your tapered chargeable gains.

SECTION 7:
WORKING OUT TAPERED CHARGEABLE GAINS

You have already worked out the chargeable gain for each asset, that is the disposal proceeds less allowable costs, indexation and other reliefs. You have also worked out your allowable losses. If the total chargeable gains less total allowable losses are equal to or less than the annual exempt amount, you do not have to pay any CGT and you do not have to work out taper relief, see Section 8.

If the chargeable gains after losses are more than the annual exempt amount, you need to work out any taper relief that is due. What you do next depends on whether you have any allowable losses.

How do I work out taper relief if I do not have any allowable losses?

If you do not have any allowable losses, you simply reduce the amount of each chargeable gain you have made in the tax year by the relevant taper reduction. (See the table at the start of Section 6.)

Example 20
You acquired an asset on 1 June 1999 for £15,000. You sell it on 1 July 2005 for £25,000. It was a non-business throughout the period when you owned it.

You have no allowable losses.

Your chargeable gain before taper relief is £10,000 (disposal proceeds £25,000 less allowable costs £15,000).

You held the asset for six years and 30 days, so the number of whole years in the qualifying holding period is six.

Therefore, the amount of the chargeable gain that remains chargeable is £8,000 (£10,000 x 80%).

Example 21

You acquired an asset on 10 July 1985 for £10,000. You sell it on 8 September 2002 for £100,000. Throughout the period from 6 April 1998 until you disposed of it, it was a business asset.

You have no allowable losses.

Your chargeable gain before taper relief is £82,930 (disposal proceeds £100,000 less allowable costs £10,000 and indexation allowance to April 1998 £7,070).

You held the asset for four years and 155 days from 6 April 1998, so the number of whole years in the qualifying holding period is four (there is no bonus year for business assets disposed of on or after 6 April 2000).

Therefore, the amount of the chargeable gain that remains chargeable is £20,732 (£82,930 x 25%).

Sometimes, the effect of taper relief is to reduce your tapered chargeable gains below the level of the annual exempt amount. In that case, there will be no CGT to pay.

Example 22
You make the following chargeable gains in a tax year.

Asset 1	Chargeable gain £3,400. There are five whole years in the qualifying holding period and the asset was held as a non-business asset throughout. The taper percentage of gain chargeable for a non-business asset held for five years is 85%.
Asset 2	Chargeable gain £4,100. There are eight whole years in the qualifying holding period and the asset was held as a non-business asset throughout. The taper percentage of gain chargeable for a non-business asset held for eight years is 70%.

You have tapered chargeable gains computed as follows

Asset 1 Chargeable gain £3,400 x 85%	= £2,890
Asset 2 Chargeable gain £4,100 x 70%	= £2,870
Tapered chargeable gains	**£5,760**

What if I have allowable losses?

The general rules for allowing losses arising in the tax year and losses brought forward from earlier years are explained in Section 5 above.

You only have to work out taper relief if the chargeable gains after losses are more than the annual exempt amount.

In order to maximise your entitlement to taper relief, you attribute the allowable losses to each chargeable gain in the following order.

- Firstly, any gains which do not qualify for taper relief (gains arising on non-business assets where the qualifying holding period is less than three years; gains arising on business assets where you do not have one year or more in the qualifying holding period).
- Then the gain qualifying for the lowest taper reduction.

- Then the gain qualifying for the next lowest taper reduction.
- And so on.

You then work out taper relief on the remaining chargeable gains after losses.

Example 23

In 2004-2005 you dispose of two assets. You have no allowable losses brought forward.

Asset 1 You make an allowable loss of £1,000.

Asset 2 You make a chargeable gain before taper relief of £20,000. The qualifying holding period is six years and it was a non-business asset throughout.

You deduct your allowable loss from your chargeable gain before taper relief as follows

Chargeable gain	£20,000
Less allowable loss	£ 1,000
Chargeable gain after losses	£19,000.

After taper relief, the amount of the chargeable gain after losses that remains chargeable is **£15,200** (£19,000 x 80%).

Example 24

In 2004-2005 you dispose of three assets. You have no allowable losses brought forward.

Asset 1 You make an allowable loss of £2,000.

Asset 2 You make a chargeable gain before taper relief of £8,000. There are 6 whole years in the qualifying holding period and it is a non-business asset throughout. Therefore, 80% of the gain is chargeable.

Asset 3 You make a chargeable gain before taper relief of £20,000. There are four whole years in the qualifying holding period and it is a business asset throughout. Therefore, 25% of the gain is chargeable.

There are no gains which do not qualify for taper relief. So, you attribute the whole of the allowable loss to the chargeable gain on Asset 2 because that gain qualifies for the lowest taper reduction.

The amount of each chargeable gain after losses that remains chargeable is therefore

Asset 2	Chargeable gain before taper relief	£ 8,000
	less allowable losses	£ 2,000
	chargeable gain after losses	£ 6,000
		x 80%
		£ 4,800
Asset 3	Chargeable gain before taper relief	£20,000
	less allowable losses	nil
	chargeable gain after losses	£20,000
		x 25%
		£ 5,000
Tapered chargeable gains for 2004-2005		**£ 9,800**

Example 25

In 2005-2006 you dispose of four assets. You have allowable losses brought forward of £3,000. Assume the annual exempt amount is £7,200.

Asset 1 — You make an allowable loss of £8,000.

Asset 2 — You make a chargeable gain before taper relief of £10,500. The number of whole years in the qualifying holding period is eight and it is a non-business asset throughout.

Asset 3 — You make a chargeable gain before taper relief of £3,300. There are two whole years in the qualifying holding period and it is a non-business asset throughout.

Asset 4 — You make a chargeable gain before taper relief of £8,800. There are seven whole years in the qualifying holding period and it is a business asset throughout.

You attribute £3,300 of the allowable losses to the gain on Asset 3 because that gain does not qualify for taper relief. You then attribute the remaining £7,700 of the losses to the gain on Asset 2 because that gain qualifies for the lowest taper reduction.

The amount of each gain that remains chargeable after taper relief is therefore

Asset 2	Chargeable gain before taper relief	£10,500
	less allowable losses	£ 7,700
	chargeable gain after losses	£ 2,800
		x 70%
		£ 1,960

Asset 3	Chargeable gain before taper relief	£	3,300
	less allowable losses	£	3,300
	chargeable gain after losses		nil
Asset 4	Chargeable gain before taper relief	£	8,800
	less allowable losses		nil
	chargeable gain after losses	£	8,800
		x	25%
		£	2,200
Tapered chargeable gains for 2005-2006		**£**	**4,160**

As your tapered chargeable gains are below the annual exempt amount, you will not have to pay any CGT.

What if my asset had been partly a business asset and partly a non-business asset?

If you apportioned a chargeable gain into a gain on a business asset and a gain on a non-business asset (see previous section and appendix 4), you should treat each apportioned gain as a separate gain when deciding against which of your gains to apply losses.

Example 26

You disposed of an asset with a chargeable gain of £10,000. You also have an allowable loss of £2,000

There are eight whole years in the qualifying holding period. It was a business asset for exactly one quarter of the time that you owned it, and a non-business asset for three quarters of the time. The apportioned chargeable gains are

Chargeable gain on a business asset: £2,500. So after taper relief 25% of the gain will be charged to tax.

Chargeable gain on a non-business asset: £7,500. So after taper relief 70% of the gain will be charged to tax.

You apply the whole of the loss to the chargeable gain on the non-business asset as you get less taper relief on it.

So your tapered chargeable gains are:

Business asset:			£2,500	x 25% =		£625
Non-business asset	£7,500	less £2,000 =	£5,500	x 70% =	£3,850	
Tapered chargeable gains =					**£4,475**	

What do I do next?

You have now worked out the tapered chargeable gains.

You should now go to Section 8 to work out the amount chargeable to CGT.

SECTION 8:
WORKING OUT THE AMOUNT CHARGEABLE TO CGT

You may have come straight to this section because your total chargeable gains or your chargeable gains after losses were less than the annual exempt amount. Or you may have applied taper relief to arrive at your tapered chargeable gains.

Deducting the annual exempt amount

Your next step is to deduct the annual exempt amount in order to work out the amount chargeable to CGT.

In 2000-01, the annual exempt amount is £7,200. It is normally increased each year broadly in line with inflation. You can look up the current level on our website.

If your total chargeable gains, chargeable gains after losses, or tapered chargeable gains are less than the annual exempt amount you do not have to pay any CGT.

Example 27

	Tapered chargeable gains		£6,500
Less	Annual exempt amount	£7,200	
	Amount chargeable to CGT		**none**

If your tapered chargeable gains are more than the annual exempt amount, then you will have to pay CGT on the excess.

Example 28

	Tapered chargeable gains		£19,500
Less	Annual exempt amount	£7,200	
	Amount chargeable to CGT		**£12,300**

You will have to pay tax on the £12,300.

Who gets an annual exempt amount?

A husband and wife are each entitled to their own annual exempt amount.

A child is entitled to her or his own annual exempt amount for gains that are made on assets that he or she owns directly, or that are held by a bare trustee.

A trust has a separate annual exempt amount. Normally that is at half the exempt amount that individuals have, but a trust for a disabled person has the same annual exempt amount as an individual. There are special rules when one person has set up several trusts. See Help Sheet IR294: Trusts and Capital Gains Tax.

Personal representatives have the same annual exempt amount (see Section 9) as individuals for the year of death and the next two years, but nothing after that.

What do I do next?

The next section tells you how much CGT you will actually have to pay on the amount chargeable to CGT.

SECTION 9:
WORKING OUT HOW MUCH CGT YOU HAVE TO PAY

You have to pay CGT on the amount chargeable to CGT (see Section 8).

The rate of CGT you will have to pay depends on the level of your income liable to income tax. For the tax year 2000-2001, the amount chargeable to CGT is added on to the top of your income liable to income tax and is charged to CGT at

- 10% to the extent that your total income after allowances is less than the top of the starting rate band (£1,520) ,
- 20% to the extent that your total income after allowances is less than the top of the basic rate band (£28,400) and has not been charged at 10%. Note that this charge is at 20%, not the basic rate of income tax,
- 40% above the basic rate limit (more than £28,400).

Different rates and limits applied in earlier years. Rates and limits may change in future years. You can look up the rates and limits for particular years on our website or you can ask your Tax Office.

Your income liable to income tax is

- your total income for income tax purposes (after any income tax reliefs)

less

- your personal allowances.

Where tax has already been deducted, you should take into account the full amount of income including the tax. In the case of dividends from UK companies, you should add the 1/9 tax credit. If you have made Gift Aid payments in the year, the top of the basic rate band is increased.

If you have any unused income tax reliefs or personal allowances, you cannot use these to reduce the amount chargeable to CGT.

Example 29

In 2000-2001 you have total income of £25,000. Your personal allowances are £4,385. So, your income liable to income tax is £20,615 (£25,000 – £4,385).

You have an amount chargeable to CGT of £10,000.

The starting rate limit is £1,520 and the basic rate limit is £28,400.

You work out CGT as follows.

- Firstly, you add the amount chargeable to CGT (£10,000) on top of your income liable to income tax (£20,615), giving a total of £30,615.
- As none of the amount chargeable to CGT is within the starting rate limit, you do not tax any of it at 10%.
- As £7,785 of the amount chargeable to CGT is within the basic rate limit (£28,400 – £20,615) you tax this amount at 20%.
- As the balance of £2,215 (£10,000 – £7,785) is above the basic rate limit, you tax this amount at 40%.
- Therefore, the amount of CGT you will have to pay is

  £7,785 x 20% = £1,557
  £2,215 x 40% = £ 886
  £2,443

What if I have paid foreign tax on my gains?

If any part of your amount chargeable to CGT has also been taxed in another country, you can claim relief, called tax credit relief, to reduce the CGT that you have to pay on that part of your amount chargeable to CGT. Ask your Tax Office for further details.

APPENDIX 1: POST-TRANSACTION VALUATION CHECKS FOR CAPITAL GAINS TAX

Introduction

When working out your Capital Gains Tax liability, or in the case of companies, your Corporation Tax liability on chargeable gains, you sometimes have to value assets. If you use such valuations, we offer a free service to help you complete your Tax Return. You can ask your Tax Office to check valuations after you have made the disposal but before you make your Return. Our service is available to all taxpayers, individuals, trustees and companies.

If we agree your valuations we will not challenge your use of them in your Return unless there are any important facts affecting them that you have not told us about. Agreement to your valuations does not necessarily mean that we agree the gain or loss. We will not consider the other figures you have used until you make your Return.

If we cannot agree your valuations we will suggest alternatives. We use specialist valuers to value some assets, mainly shares, land, goodwill and works of art. You will also be able to discuss your valuations with our valuers. You must file your Return by the filing date printed on it even if we have not been able to agree your valuations or suggest alternatives. Your Return must also tell us about any valuations that we have checked but been unable to agree.

If, after discussion, we cannot reach agreement on any valuations you use in your Return, you will be able to appeal to an independent tribunal.

How to get your valuations checked

If you want us to check your valuations, ask your Tax Office or any Inland Revenue Enquiry Centre for one copy of form *CG34* for each valuation you want us to check. Return the completed form(s) to us together with the information and documents requested on the form. You can also attach any other information that will help us understand your valuations.

If you do not provide all the information requested on the form, we may be unable to check your valuations. If you have difficulty getting all of this information, or you are not sure how to prepare a Capital Gains computation, ask us for help.

How long it will take?

Your Tax Office, or our specialist valuers, will contact you as soon as possible after you make your application. Valuation is an exercise of judgement that can sometimes be a difficult and lengthy process, particularly if discussion is necessary.

The sooner you contact us after you have made a disposal, the more likely we will be able to reach agreement with you before you make your Return.

We expect that it will take a minimum of 56 days to agree your valuations or to provide you with an alternative. In more complex cases it may take longer. In a few very complex cases we may not be able to provide you with any alternative valuation before the filing date for your Return. If you want to use our service please send any forms *CG34* to your Inland Revenue office at least two months before you need to make your Return.

Further information

We can give you further information about this scheme at your Tax Office or from your nearest Inland Revenue Enquiry Centre.

APPENDIX 2: INDEXATION ALLOWANCE

Indexation allowance

Indexation allowance is an allowance which adjusts gains for the effects of inflation up to April 1998. It does this by giving an allowance equal to the amount by which the cost of the asset would have risen on a monthly basis if its value had kept pace with inflation, as measured by the increase in the Retail Prices Index (RPI), since the asset was acquired. No allowance is due for periods after April 1998. So assets acquired on or after 1 April 1998 do not qualify for indexation allowance.

This is a complex area. If you have difficulty, you can ask your Inland Revenue Enquiry Centre or Tax Office for help. You may also ask to see a copy of the Inland Revenue Capital Gains Manual, which explains the rules for indexation allowance in detail. The manual is available on our website.

How is indexation allowance calculated?

Indexation allowance is based on the increase in the RPI between

- the month in which the asset was acquired or, for subsequent expenditure, the month in which the expenditure on the asset was incurred, or 31 March 1982 if that is later, **and**
- the month in which the asset was disposed of, or April 1998, if that is earlier.

This booklet only explains the position for assets disposed of after 5 April 1998. For assets disposed of before that date please ask your Inland Revenue Enquiry Centre or Tax Office for help.

In order to work out your indexation allowance, you need to look at the table at the end of this Appendix on page 00. This gives details of the 'indexation factor' to be used in calculating the rise in the RPI between the month in which you incurred the expenditure on the asset and April 1998. The table shows a figure next to every month between March 1982, when indexation allowance was introduced, and March 1998. Take the indexation factor next to the month in which you incurred the expenditure and multiply this by the expenditure. This gives the amount of the indexation allowance which can be deducted in computing the chargeable gain.

Example 30

You bought an asset in March 1992 for £1,000, and sold it in June 1999 for £5,000. The indexation factor to be used for an asset acquired in March 1992 is 0.189. Multiplying this by £1,000 gives an indexation allowance of £189.

		Proceeds		£5,000	

	Less	Cost	£1,000	
		Gain before indexation	£4,000	
	Less	Indexation	£189	
		Indexed gain	**£3,811**	

Remember that taper relief may also be available for the holding period after 5 April 1998 (see Section 6).

What about losses?

Indexation allowance can reduce or eliminate gains which are chargeable to tax, but for disposals on or after 30 November 1993, you cannot use indexation allowance to turn a gain into a loss or to increase your loss.

Example 31

You sell an asset in May 1999 for £20,000. It cost you £30,000 in November 1993. You have made a loss of £10,000. You cannot deduct any indexation allowance because the allowance cannot be used to increase the amount of a loss.

Which costs attract indexation allowance?

You can deduct indexation allowance from your gain if you have any of the following types of expenditure.

- The cost of an asset.
- The incidental cost of acquiring an asset.
- The cost of creating an asset if it was not acquired.

Any of these types of expenditure is treated as having been made when the asset was acquired or created. The rules for working out the date of acquisition are the same as for the date of disposal (see Section 2).

Example 32

You acquire an asset under a contract made in March 1993.

Payment does not have to be made until June 1993. When you calculate your indexation allowance you should treat the expenditure as if it had been made in March 1993.

You can also deduct indexation allowance if you have either

- expenditure on enhancing the asset, **or**

- expenditure on establishing, preserving or defending your title to the asset.

Either of these types of expenditure is treated as having been made when that expenditure became due and payable.

Example 33

In May 1988 you entered into a contract with a builder to add an extension to a property you own. The cost was due and payable when the work was completed in September 1988. When you calculate the indexation allowance you should treat the expenditure as incurred in September 1988.

What about part disposals?

If you make a disposal of part of an asset you own, you will only be able to deduct part of the costs of that asset in working out your gain or loss. See 'What are part disposals' in Section 2 .

Your indexation factor is multiplied by the part of the cost that can be deducted, not by the whole of the cost of the asset.

What about assets held at 31 March 1982?

If you

- owned an asset at 31 March 1982, **or**
- you acquired an asset from your spouse in a no gain/no loss transfer after that date, and your spouse held the asset at 31 March 1982

the rules are modified for that asset.

Your indexation allowance is calculated on the **greater** of

- the total cost you or your spouse incurred up to 31 March 1982 on that asset (including its initial acquisition price), **or**
- the value of that asset at 31 March 1982 **unless**

you, or your spouse, have made an election for rebasing to 31 March 1982 to apply to all your disposals. If you have made a rebasing election, indexation allowance is calculated on the value of the asset at 31 March 1982. Whether you have made a rebasing election or not, the indexation allowance is calculated by reference to inflation since March 1982.

You calculate separately indexation allowances on any relevant expenditure incurred after 31 March 1982 that is allowable in working out your gains.

You can find out more about rebasing to 31 March 1982 in Help Sheet IR280: Rebasing - assets held at 31 March 1982.

Example 34

You bought an asset in 1979 for £20,000. At 31 March 1982 it was worth £15,000. You should calculate your indexation allowance by multiplying £20,000 by the indexation factor unless you have made a rebasing election; in which case you should multiply £15,000 by the indexation factor.

What about disposals of pooled shares or securities?

Shares of the same class in the same company acquired before 6 April 1998 are treated as a single asset, the share pool.

The rules for indexation allowance are modified to cope with share pooling. See Help Sheet IR284: Shares and Capital Gains Tax.

Indexation allowance for disposals after 31 March 1998

You work out the indexation allowance by multiplying the amount you spent by the indexation factor. All of the indexation factors you will need are included in the table below.

For example, if you incurred expenditure in June 1989, look across the Month columns to find June and then look down the column until you find the row for 1989. Your indexation factor for June 1989 will be 0.409.

	Month											
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982			1.047	1.006	0.992	0.987	0.986	0.985	0.987	0.977	0.967	0.971
1983	0.968	0.960	0.956	0.929	0.921	0.917	0.906	0.898	0.889	0.883	0.876	0.871
1984	0.872	0.865	0.859	0.834	0.828	0.823	0.825	0.808	0.804	0.793	0.788	0.789
1985	0.783	0.769	0.752	0.716	0.708	0.704	0.707	0.703	0.704	0.701	0.695	0.693
1986	0.689	0.683	0.681	0.665	0.662	0.663	0.667	0.662	0.654	0.652	0.638	0.632
1987	0.626	0.620	0.616	0.597	0.596	0.596	0.597	0.593	0.588	0.580	0.573	0.574
1988	0.574	0.568	0.562	0.537	0.531	0.525	0.524	0.507	0.500	0.485	0.478	0.474
1989	0.465	0.454	0.448	0.423	0.414	0.409	0.408	0.404	0.395	0.384	0.372	0.369
1990	0.361	0.353	0.339	0.300	0.288	0.283	0.282	0.269	0.258	0.248	0.251	0.252
1991	0.249	0.242	0.237	0.222	0.218	0.213	0.215	0.213	0.208	0.204	0.199	0.198
1992	0.199	0.193	0.189	0.171	0.167	0.167	0.171	0.171	0.166	0.162	0.164	0.168
1993	0.179	0.171	0.167	0.156	0.152	0.153	0.156	0.151	0.146	0.147	0.148	0.146
1994	0.151	0.144	0.141	0.128	0.124	0.124	0.129	0.124	0.121	0.120	0.119	0.114
1995	0.114	0.107	0.102	0.091	0.087	0.085	0.091	0.085	0.080	0.085	0.085	0.079
1996	0.083	0.078	0.073	0.066	0.063	0.063	0.067	0.062	0.057	0.057	0.057	0.053
1997	0.053	0.049	0.046	0.040	0.036	0.032	0.032	0.026	0.021	0.019	0.019	0.016
1998	0.019	0.014	0.011									

APPENDIX 3: TAPER RELIEF ON DISPOSALS OF BUSINESS ASSETS ON OR BEFORE 5 APRIL 2000

The table below sets out the rates of taper relief for disposals of business assets on or after 6 April 1998 and on or before 5 April 2000.

Gains on disposals of business assets	
Number of whole years in qualifying period	**Percentage of Gain chargeable**
1	92.5
2	85
3	77.5
4	70
5	62.5
6	55
7	47.5
8	40
9	32.5
10 or more	25

In practice, there cannot have been more than one whole year in the qualifying holding period for a disposal on or before 5 April 2000. If you were entitled to a bonus year, you should use the number of whole years plus the bonus year when using the table.

APPENDIX 4: APPORTIONMENT

You may need to apportion the chargeable gain where an asset changed between being a business asset and being a non-business asset.

For apportionment, you should look at the relevant period of ownership (RPO). The RPO ends with the date of disposal. It starts with whichever is the latest of

- the date of acquisition of the asset
- 6 April 1998
- ten years before the date of disposal.

If, during the RPO, the asset was sometimes a business asset and sometimes a non-business asset you will have to apportion the chargeable gain on the asset into a gain on a business asset and a gain on a non-business asset. The apportionment should reflect the proportions of the RPO that the asset was a business asset and a non-business asset. You should work through the apportionment before deducting losses (see Section 7).

You then deduct any losses and apply taper relief to each apportioned gain as though each apportioned gain was on an asset that you had owned for as long as you had owned the actual asset (see Section 7).

The next example shows you how to apportion a gain. In the following passage we show a simpler route that you can use for some assets that changed into business assets from 6 April 2000.

Example 35

You bought some shares on 17 February 1996 and sold them on 23 October 2003.

There are five whole years in the qualifying holding period from 6 April 1998 to 23 October 2003 and non-business assets also qualify for the bonus year.

The relevant period of ownership is the period from 6 April 1998 to 23 October 2003.

In this example, the shares were a non-business asset from 6 April 1998 up to 5 April 2000 and a business asset from 6 April 2000 to the date of disposal. For example, they might be shares you owned in the listed trading company where you worked throughout the time you owned the shares, and where you always had less than 5% of the voting rights. These shares would have become business assets from 6 April 2000 as a result of changes in the Finance Act 2000.

So, in the five years, six months and 17 days (2,027 days) of the relevant period of ownership there are

- two years as a non-business asset (731 days); and

- three years, six months and 17 days (1,296 days) as a business asset.

So you should divide the chargeable gain according to the proportion of the relevant period of ownership that the asset has been a business/ non-business asset.

Expressed in days, the proportions are: 731/ 2,027 of the gain is a gain on a non-business asset; 1,296/ 2,027 of the gain is a gain on a business asset.

In this example, your chargeable gain is £202,700. Then you should treat £73,100 as a chargeable gain on a non-business asset and £129,600 as a chargeable gain on a business asset.

Then

- The £73,100 non-business asset gain obtains six years non-business taper relief (with the bonus year). So 80% of the gain is the tapered chargeable gain; and

- The £129,600 business asset gain obtains five years business asset taper relief (without any bonus year). So 25% of the gain is the tapered chargeable gain.

The chargeable gains are

	80% of £73,100	£58,480
and	25% of £129,600	£32,400

Apportionment where assets become business assets from 6 April 2000

Assets may change their business/ non-business status for many reasons. A number of assets changed their status from 6 April 2000 as a result of changes in the rules that were implemented in the Finance Act 2000. These changes mostly affected the definition of a qualifying company, see Section 6.

In order to simplify the calculation, you may use the table below when completing tax returns for assets that you

- owned before 17 March 1998; **and**
- that were wholly non-business assets up to 5 April 2000; **and**
- that were wholly business assets from 6 April 2000 up to the date of disposal.

You should apply the percentage in the table to the total chargeable gain. Using the table saves you apportioning the gain into a gain on a business asset and a gain on a non-business asset, and making separate taper calculations. There is an example of how to use the table after the notes to the table on page 00.

You should not use the table if you wish to, or are required to, offset a loss against one or both of the apportioned chargeable gains on the asset.

Year of Disposal	***Certain apportionment cases: percentage of gain chargeable***												
	Month of Disposal												
	Jan	**Feb**	**Mar**	**1-5 Apr**	**6-30 Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2000	100	100	100	100	94.7	94.0	93.3	92.6	92.0	91.4	90.8	90.3	89.9
2001	89.4	89.0	88.6	88.4	76.4	75.8	75.1	74.4	73.8	73.2	72.7	72.2	71.7
2002	71.2	70.7	70.3	70.1	54.8	54.2	53.6	53.1	52.6	52.0	51.5	51.0	50.6
2003	50.1	49.7	49.3	49.1	46.9	46.6	46.2	45.9	45.5	45.2	44.9	44.6	44.3
2004	44.1	43.8	43.5	43.4	41.6	41.4	41.2	40.9	40.7	40.5	40.3	40.1	39.9
2005	39.8	39.6	39.4	39.3	37.8	37.7	37.5	37.4	37.2	37.1	37.0	36.8	36.7
2006	36.6	36.5	36.3	36.3	35.0	34.9	34.8	34.7	34.6	34.5	34.4	34.3	34.2
2007	34.1	34.0	34.0	33.9	32.8	32.7	32.6	32.6	32.5	32.4	32.4	32.3	32.2
2008	32.2	32.1	32.0	32.0	31.9	31.6	31.3	31.0	30.7	30.5	30.2	29.9	29.6
2009	29.3	29.0	28.7	28.5	28.4	28.1	27.8	27.5	27.3	27.0	26.7	26.4	26.1
2010	25.8	25.5	25.2	25.0	25	25	25	25	25	25	25	25	25
2011 on	25	25	25	25	25	25	25	25	25	25	25	25	25

Notes on the table

(1) There are two columns for disposals in April. You should choose which to use depending on whether you disposed of the asset on 1-5 April (just before completing another year in the qualifying holding period) or on 6-30 April (just after completing another year).

(2) We have worked out the figures in this table using a disposal date of the 15th of every month except April. For April, we used disposals on the 3rd and the 18th. On average, these mid-period disposal dates work out fairly. If you disposed of your asset on a day of the month before the assumed date you will obtain a slight advantage from using the figures in the table; if you disposed of your asset on a day of the month after the assumed date you will experience a slight disadvantage, though it will be simpler to use the table than to work through the apportionment. The differences are bigger in the earlier years. In addition, the figures have been rounded to one decimal point. If your gain is large, or if you wish to obtain the exact taper figure, then you may work out the apportionment precisely using the exact number of days rather than relying on the figures in

the table. You can see whether it is worth calculating the figures yourself by looking at the next example.

Example 36

This example looks at disposals in May 2003 where the chargeable gain was £100,000 (there was no allowable loss, the annual exempt amount was already fully used, and tax is payable at the higher rate (40%)). The differences would be a little higher in earlier years, and a little lower in later years.

Date of Disposal	Apportioned taper percentage	Tapered chargeable gain	CGT due at 40%	CGT saving/ cost from using figure in the table
1 May	46.7%	£46,700	£18,680	Save £40
15 May (the date used in the table)	46.6%	£46,600	£18,640	Zero
23 May	46.5%	£46,500	£18,600	Cost £40
31 May	46.4%	£46,400	£18,560	Cost £80

(3) Editions of the Help Sheet IR279: Taper Relief issued after April 2001 will contain a similar table giving apportioned taper percentages for disposals in the year of assessment for assets acquired between 17 March 1998 and 5 April 2000.

(4) Do not use the table if you wish to offset losses against these chargeable gains. If you have losses to offset, you should consider whether you will wish to offset them against one or both of the apportioned gains. For example, if one of the apportioned chargeable gains is the chargeable gain with the least taper relief of all your chargeable gains, then you should offset your losses against it (see the passage 'What if my asset had been partly a business asset and partly a non-business asset?' in Section 7). You need to have worked out the apportionment of your chargeable gain into separate gains on business and non-business assets in order to do that.

(5) You should not use the table if certain restrictions apply to you. Certain restrictions apply when close companies change their activities, when value shifts out of shares in a close company, or you take steps to freeze the value of assets. There is more information in the Help Sheet IR279: Taper Relief.

Example 37

You bought some shares in an unlisted trading company on 17 May 1996. You had 1% of the voting rights. You disposed of the shares on 15 July 2006. From 6 April 1998 to 5 April 2000 the shares were a non-business asset. From 6 April 2000, as a result of the

re-definition in the Finance Act 2000, the shares became a business asset. They remained a business asset up to the date of disposal. You had no loss to offset against the gain.

The chargeable gain on disposal was £100,000. Using the taper percentage from the table above for the month of disposal, the tapered chargeable gain is 34.7% of £100,000: that is, £34,700.

What can I do if I want to comment about the way my tax affairs have been dealt with?

We always value any comments on the service you have received from your Inland Revenue Enquiry Centre or Tax Office. We welcome any suggestions that could improve the service we provide for you.

If you have a complaint which the Officer in Charge of your own Tax Office cannot settle, you should contact the Inland Revenue Director responsible for the area dealing with your tax affairs. Our leaflet IR120 ‘You and the Inland Revenue’ tells you how to do that. It is available from any Inland Revenue Enquiry Centre or Tax Office.

If you are not satisfied with the Director's response, you can ask the Adjudicator to review your complaint. The Adjudicator is an impartial referee who will look at both sides of the complaint and, if it cannot be resolved, will recommend appropriate action. The Adjudicator's recommendations are independent.

The Adjudicator’s address is

The Adjudicator’s Office
Haymarket House
28 Haymarket
London SW1Y 4SP
Tel 020 7930 2292 (Typetalk facilities are available)
Fax 020 7930 2298

You can also contact the Adjudicator by e-mail at adjudicators@gtnet.gov.uk or visit the website at www.open.gov.uk/adjoff

The Adjudicator’s Office leaflet AO1 (available from the Adjudicator’s Office and Inland Revenue offices) tells you how to make a complaint and gives information on what the Adjudicator can look into.

If you are not satisfied with the service you have received from us or from the Adjudicator, or with the outcome of your complaint, you can ask an MP to refer your case to the Parliamentary Ombudsman. The Ombudsman will accept referral from any MP, but you should approach your own MP first.

Further information is available

- from Office of the Parliamentary Commissioner for Administration
  Millbank Tower
  Millbank
  London SW1P 4QP
  Helpline 020 7217 4163
  Fax 020 7217 4160

- by visiting the Parliamentary Ombudsman website at **www.ombudsman.org.uk**

- by e-mailing **opca-enqu@ombudsman.org.uk**

You can also ask your MP to take up your case with the Inland Revenue or Treasury Ministers.

We welcome any general comments you have on how to improve our service to all our customers.

OUR SERVICE COMMITMENT TO YOU

The Inland Revenue and Customs & Excise are committed to serving your needs well by

acting fairly and impartially

We:

- treat your affairs in strict confidence, within the law
- want you to pay or receive only the right amount due.

communicating effectively with you

We aim to provide

- clear and simple forms and guidance
- accurate and complete information in a helpful and appropriate way.

providing good quality service

We aim to

- handle your affairs promptly and accurately
- be accessible in ways that are convenient to you
- keep your costs to the minimum necessary
- take reasonable steps to meet special needs
- be courteous and professional.

taking responsibility for our service

- We publish annually our customer service aims and achievements
- If you wish to comment, or make a complaint, we want to hear from you so we can improve our service. We advise you how to do this.

We can provide better service if you help us by

- keeping accurate and up to date records
- letting us know if your personal or business circumstances change
- giving us correct and complete information when we ask for it
- paying on time what you should pay.

Further information on customer service is available at Inland Revenue and Customs and Excise local offices, set out in our Charters, complaint leaflets (IR120 and Notice 1000) and Codes of Practice.

These notes are for guidance only and reflect the tax position at the time of writing. They do not affect any right of appeal.

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February 2001
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